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PRINCIPLE OF ECONOMY IN EXPORTS

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Introduction

The principle of economy in exports must be clearly distinguished from profitability. Export transactions returning a low profit may rank high in their importance for the economy of the exporting country as, for example, when domestic production of the merchandise concerned meets the requirements of the international division of labor, or production for export enhances productivity, or the advantage of imports in exchange offsets the disadvantage of the export transaction in question, or the export yields free foreign exchange.

In the case of certain capitalistic markets, even the export of products returning a very low rate of profit may prove economical, provided the transaction in question enhances other export possibilities or is necessary in order to exploit fully the existing production capacity. The export of products with unfavorable profit possibilities may also be economical in case another People's Democracy depends on the importation of the product in question from Hungary. Currently, the countries belonging to the new world market mutually apply this trade policy.

The purpose of this article is to clarify the concept of economy in foreign trade. Currently, there are a great variety of opinions as to the methods of examining economy in exports. It is evident, however, that the differences of opinion concern not only methodology but also the interpretation of the concept itself.

Economy Versus Profitableness

In the current phase of Hungary's economic development, it is becoming increasingly urgent to enforce the principle of economy in foreign trade. Consequently, we must determine the industrial and agricultural products whose production for export must be boosted or restricted.

This problem has been examined from the theoretical as well as the practical viewpoint by several Hungarian economists during recent months. Nevertheless, the concept of economy has not yet been clarified, because our economists fail to make a clear distinction between the concept of economy and the concept of profitability. Many economists apply the degree of profitability to the concept of economy. Others propose that economy in exports should be measured on the basis of foreign exchange expenditures and receipts. Still other economists adhere to the view that economy in exports is measured by an index which expresses both profitability and foreign exchange receipts, although the tendencies of these two latter factors often diverge or are diametrically opposed to one another.

Stalin's statement on the categories of capitalism is also valid in regard to the category of the principle of economy. According to this statement, "We have retained only the form of these categories, but in essence they have radically changed in our country in accordance with the requirements of the socialist national economy."

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What is the form which has been retained, and what is the new content of the principle of economy in exports? According to the form, which has remained unchanged, both the capitalist and socialist societies consider as worthwhile an economic activity which is advantageous from the long-range perspective or from a broad view of economic interrelations, regardless of whether the activity results in a profit or a loss. According to this definition, a good many processes which are unprofitable at a given time or within the foreseeable future, whether they are examined as isolated transactions or from the viewpoint of broader connections, may be subsumed under the concept of economy.

A concrete example may be noted in the field of foreign trade: If in a relatively backward country all exportable articles are produced by labor of lower productivity than in foreign countries in general, then the domestic value of these articles will be greater than their value in the world market. Therefore, the country in question will necessarily incur a loss on all exports. However, if that country is engaged in a program of economic expansion and needs imports for this purpose, it will find it economical to export products which will result in the least loss. It results from the formal definition of the principle of economy that profitableness can be easily calculated, while the determination of the principle of economy needs long and careful analysis.

Tamas Nagy gives a concise definition of the principle of economy: "... according to the principle of economy the greatest result is attained by the smallest expenditure." This definition may easily lead to a misunderstanding, namely, justification of the view which identifies the principle of economy with profitableness.

Varying Content of the Principle of Economy

The content of the concept of economy, that is, what the producer considers economically advantageous, depends on the character of the social system. In the Hungarian People's Democracy the content of economy is determined by the basic economic law of socialism and the development of the national economy.

We must start with these factors in examining what we may consider economically advantageous in foreign trade. The character of foreign trade is determined by the character of international division of labor. However, foreign trade does not merely passively reflect the system of international division of labor but may become a tool of changing this system. This is of particular importance, because the division of labor which currently exists among the countries of the socialist camp is far from being the most advantageous from the viewpoint of the socialist camp. Therefore, as Tamas Nagy said, "... it has become necessary to begin a new division of labor within the socialist camp."

The most important characteristic of the new division of labor stems from the principle that the basic economic law of socialism will be enforced internationally. This characteristic may be formulated as follows: the new division of labor will enforce the requirements of socialist internationalism; socialist internationalism will not tolerate the exploitation of backward countries by economically advanced countries and will demand effective mutual help from the free countries for the coordinated development of the productive forces of all countries.

Such international division of labor in all countries of the socialist camp will promote economy in social labor. It will be the first really reasonable international division of labor in history. The conclusion is warranted that the principle of economy in socialist foreign trade is essentially identical with the development of a proper international division of labor, that is, that the essence of the problem is not profitableness. Proper division of labor among the countries

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of the new world market is as yet in the formative stage; accordingly, the principle of economy does not yet mean that each product can be produced and exported from the country where it is currently being produced at the cost of the least amount of social labor.

Principle of Economy of Socialist Foreign Trade in Two World Markets

Since further expansion of trade between the two world markets is desirable not only from the political but also from the economic viewpoint, the content of the concept of economy is currently still determined to a large extent by the character of the division of labor which is developing between us and the countries of the capitalist world markets. The countries of the socialist camp cannot disregard the manner in which the production and exportation of each domestic article affects the development of relations with the countries of the capitalist world market.

Certain Aspects of the Analytical Work

The most important starting point in the analysis of the principle of economy in exports is the relationship between domestic value and international price. Such an index, however, fails to show correctly the degree of profitableness: an export transaction if the exported product contains an imported ingredient. According to Tamas Nagy, in calculating the degree of economy in the exportation of such an article, the foreign product used must be deducted according to the following formula: international value of the exported article minus international value of the imported ingredient divided by total domestic expenditures of production.

In our opinion this formula provides an index for profitableness instead of for economy in export, although it can also serve as the starting point for the analysis of export economy.

The above formula, as an index of profitableness, must be modified, however, because of the deficiencies of our pricing system. The modification proposed by Tibor Liska and Antal Marias consists in substituting the amount of the total wages for the labor involved for the above denominator.

Tamas Nagy, after adopting the Liska-Marias modification, took issue with proposals that the economy of each exported article should be determined by a comparison of foreign exchange receipts with foreign exchange expenditures. According to Tamas Nagy, that ratio is a very important index from the viewpoint of the country's balance of payments but "has nothing to do with the economy of foreign trade."

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